

TOWNSHIP OF BAGLEY
OTSEGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2008

TOWNSHIP OFFICIALS

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INDEPENDENT AUDITOR'S REPORT

October 19, 2008

To the Township Board
Bagley Township

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Bagley Township, Otsego County, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Bagley Township, Otsego County, Michigan as of March 31, 2008, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bagley Township has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the financial statements.

The budgetary comparison information on pages 19 through 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Keskin, Cook, Miller & Alexander LLP

Keskin, Cook, Miller & Alexander, LLP
Certified Public Accountants

**TOWNSHIP OF BAGLEY
STATEMENT OF NET ASSETS
MARCH 31, 2008**

	PRIMARY GOVERNMENT	
	GOVERNMENTAL ACTIVITIES	COMPONENT UNIT
ASSETS		
Current Assets:		
Cash	\$ 266,420	\$ 274,546
Investments	3,042,123	-
Due from Tax Collection Fund	17,396	16,521
Accounts Receivable	15,000	3,200
Total Current Assets	3,340,939	294,267
Non Current Assets:		
Capital Assets	1,763,704	-
Accumulated Depreciation	(314,705)	-
Total Non Current Assets	1,448,999	-
Total Assets	4,789,938	294,267
LIABILITIES		
Unobligated Federal Funds	2,000,000	-
NET ASSETS		
Invested in Capital Assets	1,448,999	-
Unrestricted	1,340,939	294,267
Total Net Assets	\$ 2,789,938	\$ 294,267

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008**

	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSE) REVENUES & CHANGE IN NET ASSETS</u>	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS & CONTRI- BUTIONS	CAPITAL GRANTS & CONTRI- BUTIONS	TOTAL	COMPONENT UNIT
GOVERNMENTAL ACTIVITIES						
General Government	\$ (275,964)	\$ 14,278	\$ -	\$ -	\$ (261,686)	\$ (3,696)
Fire Protection	(114,392)	-	-	-	(114,392)	-
Liquor Law Enforcement	(6,246)	-	4,699	-	(1,547)	-
Street Lights	(7,771)	-	-	-	(7,771)	-
Total Governmental Activities	(404,373)	14,278	4,699	-	(385,396)	(3,696)
GENERAL REVENUES						
Property Taxes:						
DDA TIFA					-	20,119
State Shared (not restricted to specific purpose)					412,542	-
Interest and Other Income					97,381	10,431
Total General Revenues					509,923	30,550
CHANGE IN NET ASSETS					124,527	26,854
NET ASSETS - BEGINNING OF YEAR					2,665,411	267,413
NET ASSETS - END OF YEAR					\$ 2,789,938	\$ 294,267

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
BALANCE SHEET
AS OF MARCH 31, 2008**

	<u>MAJOR FUND</u>	<u>NON-MAJOR FUND</u>	
	<u>GENERAL</u>	<u>LIQUOR</u>	<u>TOTAL</u>
ASSETS			
Cash	\$ 228,423	\$ 37,997	\$ 266,420
Certificates of Deposit	3,042,123	-	3,042,123
Due From Other Funds	17,396	-	17,396
Due from Other Governments	15,000	-	15,000
	<hr/>	<hr/>	<hr/>
Total Assets	3,302,942	37,997	3,340,939
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND EQUITY			
Liabilities			
Unobligated Federal Funds	2,000,000	-	2,000,000
Fund Equity:			
Fund Balance - Undesignated	1,302,942	37,997	1,340,939
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Equity	\$ 3,302,942	\$ 37,997	\$ 3,340,939
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2008**

TOTAL FUND BALANCES - GOVERNMENTAL ACTIVITIES (PER BALANCE SHEET - PAGE 5)	\$ 1,340,939
Amounts reported for governmental activities in the Statement of Net Assets (page 3) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not recorded in the funds	1,448,999
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (PER STATEMENT OF NET ASSETS - PAGE 3)	\$ 2,789,938

See accompanying notes to financial statements.

TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2008

	<u>MAJOR FUND</u>	<u>NON-MAJOR FUND</u>	
	<u>GENERAL</u>	<u>LIQUOR</u>	<u>TOTAL</u>
REVENUES			
State Sources:			
State Shared Revenue	\$ 412,542	\$ 4,699	\$ 417,241
Local Sources:			
Interest	81,341	-	81,341
Act 425 Income	13,636	-	13,636
Permits and Hall Rent	458	-	458
Miscellaneous	16,224	-	16,224
Total Revenues	<u>524,201</u>	<u>4,699</u>	<u>528,900</u>
EXPENDITURES			
General Government	270,613	-	270,613
Public Safety:			
Liquor Law Enforcement	3,186	3,060	6,246
Fire Safety	106,035	-	106,035
Street Lights	7,771	-	7,771
Total Expenditures	<u>387,605</u>	<u>3,060</u>	<u>390,665</u>
Excess (Deficiency) of Revenues over Expenditures	136,596	1,639	138,235
Fund Balance - Beginning of Year	1,166,346	36,358	1,202,704
Fund Balance - End of Year	<u>\$ 1,302,942</u>	<u>\$ 37,997</u>	<u>\$ 1,340,939</u>

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS (PER STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - PAGE 7)	\$ 138,235
Amounts reported for governmental activities in the statement of activities (page 3) are different because:	
Depreciation expense is recorded in the statement of activities but not the governmental fund financial statements.	(13,708)
Capital outlay purchases are recorded as an expenditure in the fund financial statements but are recorded as capital assets in the government wide statements.	-
CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES (PER STATEMENT OF ACTIVITIES - PAGE 3)	\$ 124,527

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
MARCH 31, 2008**

ASSETS		
Cash	\$	33,917
		<hr/>
LIABILITIES		
Due to Other Funds		17,396
Due to Component Unit		16,521
		<hr/>
Total Liabilities		33,917
		<hr/>
NET ASSETS		
Fiduciary Net Assets	\$	-
		<hr/>
		<hr/>

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2008**

NOTE A: ENTITY

The Township of Bagley is a general law township of the State of Michigan located in Otsego County, Michigan. It operates under an elected board and provides service to its residents in many areas including law enforcement, community enrichment, and human services. The criteria established for determining various governmental functions to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Bagley Township.

The Otsego County Fire Board provides fire protection services to the Township. The Board is comprised of several governmental units in Otsego County including Bagley Township. The Township's respective share of the Fire Board's assets have been included in these financial statements. The Township does not have oversight responsibility for the Otsego County Fire Board. The Fire Board is audited under separate cover and may be obtained at The City of Gaylord, 225 West Main, Gaylord, Michigan, 49735.

COMPONENT UNIT

On October 11, 1999, the Township created the Township of Bagley Downtown Development Authority under Public Act 197 of the State of Michigan of 1975 as amended. The Authority will use tax increment financing to fund its operations. The activity of the Authority is recorded as a discretely presented component unit of Bagley Township. Audited financial statements for the component unit are located at: 2946 S. Otsego Ave., Gaylord, MI 49735.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Bagley Township are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Bagley Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On April 1, 2002, Bagley Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The Township has no business-type activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not classified as program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED)**

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major governmental fund:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from state distributions and interest earnings.

The Township has one non-major fund – Liquor Law Enforcement Fund.

Other Funds

Fiduciary Fund - This is used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

The Township levies no property tax.

Taxes for the Bagley Township Downtown Development Authority, a component unit of the Township, represent a tax-increment financed capture and are recognized as revenue in that fiscal year. Taxes are assessed on a lien date of December 1st and are recorded as revenue at that time.

BUDGET

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on a fund basis.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGET (CONTINUED)

During the year ended March 31, 2008, no fund overspent its budget. Budgets as adopted end on March 31, of each year. There are no carryover budget items. Budgets are adopted on the modified accrual basis of accounting. Amendments are made to the budgets when determined to be necessary throughout the year. The budgets presented are both the original and final amended amounts.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates

CAPITAL ASSETS AND DEPRECIATION

The Townships property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Township owns no infrastructure assets. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$3,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	5 – 50
Improvements, other than buildings	2 – 50
Mobile equipment	3 – 30
Furniture, machinery, and equipment	3 – 30

For information describing capital assets, see Note F.

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND
DISCOUNTS/PREMIUMS**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND
DISCOUNTS/PREMIUMS (CONTINUED)**

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

As of March 31, 2008, the Township has no outstanding long-term debt.

NOTE C: COMMON BANK ACCOUNTS

The Township combines all funds except Trust and Agency (tax collection) and petty cash into a common checking account. Balance at March 31, 2008, is as follows:

COMMON CHECKING	
General	\$ 228,423
Liquor	37,997
Total	<u>\$ 266,420</u>

NOTE D: CASH AND CERTIFICATES OF DEPOSIT

Investments can be made in certificates of deposit, bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Township's deposits are in accordance with statutory authority.

Cash is classified into three categories of risk as follows:

- Category 1: Insured or collateralized with securities held by the Local Unit or its agent in the Local Unit's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Local Unit's name.

TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2008

NOTE D: CASH AND CERTIFICATES OF DEPOSIT (CONTINUED)

Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Local Unit's name).

	BANK BALANCE	RISK CATEGORIES			CARRYING AMOUNT
		1	2	3	
Common Checking	\$ 279,687	\$ 100,000	\$ -	\$ 179,687	\$ 265,920
Certificates of Deposit	3,042,123	300,000	-	2,742,123	3,042,123
Petty Cash	500	-	-	-	500
TOTAL	\$ 3,322,310	\$ 400,000	\$ -	\$ 2,921,810	\$ 3,308,543
Trust & Agency Checking	\$ 33,917	\$ 33,917	\$ -	\$ -	\$ 33,917

At the year end, the balance sheet carrying amount of deposits was equal to amounts above.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The tax fund (an agency fund type) owes \$17,396 to the general fund and \$16,521 to the DDA as of March 31, 2008.

NOTE F: CAPITAL ASSETS

	<u>CAPITAL ASSETS NOT DEPRECIATED</u>		<u>CAPITAL ASSETS DEPRECIATED</u>			
	Land & Improv.	Intangible Sewer Costs	Buildings	Furniture & Fixtures	Equipment	Totals
Governmental Activities						
Capital Assets						
Balance, April 1, 2007	\$ 712,706	\$ 536,873	\$ 125,262	\$ 4,435	\$ 384,428	\$ 1,763,704
Increases	-	-	-	-	-	-
Decreases	-	-	-	-	-	-
Balance, March 31, 2008	<u>\$ 712,706</u>	<u>\$ 536,873</u>	<u>\$ 125,262</u>	<u>\$ 4,435</u>	<u>\$ 384,428</u>	<u>\$ 1,763,704</u>
Governmental Activities						
Accumulated Depreciation						
Balance, April 1, 2007	\$ -	\$ -	\$ 69,739	\$ 3,992	\$ 227,266	\$ 300,997
Increases	-	-	2,024	443	11,241	13,708
Decreases	-	-	-	-	-	-
Balance, March 31, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,763</u>	<u>\$ 4,435</u>	<u>\$ 238,507</u>	<u>\$ 314,705</u>
Total Primary Government	<u>\$ 712,706</u>	<u>\$ 536,873</u>	<u>\$ 53,499</u>	<u>\$ -</u>	<u>\$ 145,921</u>	<u>\$ 1,448,999</u>

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2008**

NOTE F: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the Township's functions as follows:

Administration	\$ 3,327
Township Hall	2,024
Fire Protection	<u>8,357</u>
	<u>\$13,708</u>

NOTE G: 425 AGREEMENT

Bagley Township has several contracts for transfer of property with the City of Gaylord which is governed pursuant to P.A. 1984 NO. 425. The contract shall be in effect for 16 years from date of contracts. Bagley Township allows the City of Gaylord to extend water and sewer service to the property. During the contract the property shall be part of the jurisdiction of the City of Gaylord for all purposes and any revenues generated by the property belongs to the City. Upon expiration, the contract shall be renewable in whole or in part for an additional 10 years upon mutual agreement. The Township recognized \$13,636 in Act 425 income in the current year.

NOTE H: INSURANCE

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Township participates in the Michigan Municipal Liability and Property Pool, a self-insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expense for a policy year exceed the total normal annual premiums for said years, all members of the pool's year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage, nor were there any significant claims for the year. The Township carries commercial insurance for other types of losses, including accident insurance.

NOTE I: PENSION PLAN

The Township of Bagley has a defined contribution pension plan covering substantially all of its elected officials.

TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2008

NOTE I: PENSION PLAN

Pursuant to Act 27 of P.A. 1960, as amended Bagley Township adopted a pension plan effective December 1, 1968 and was amended in 1989. The name of the plan is *Manulife Financial Defined Contribution Pension Plan For Governmental Employees*. The Township contributes annually based on compensation paid over a fiscal year ending November 30th. Contributions range from a minimum of \$100 to a maximum of \$500. The Township contributes 75% and the employee contributes 25%. Employees may also make voluntary contributions up to IRS Code Section 415 limits.

Township Contributions	\$ 5,022
Employee Contributions	<u>1,674</u>
Total Contributions	<u>\$ 6,696</u>

Employees' eligibility begins on the date of employment. All participants are vested 100%. Employees may participate until age 80. Normal retirement is age 65 or upon completion of 10 years of service whichever is later. Early retirement is permitted at age 55.

The plan is maintained with the Manufacturers Life Insurance Company. The total pension expense for the year was \$5,022 which meets the contribution requirements of the Township. There were no substantial changes in the plan for the year.

NOTE J: COMPARATIVE DATA

Comparative total data for the prior year have been presented in the supplemental financial data in order to provide an understanding of the changes in the Township's financial operations. However, comparative data has not been presented in every statement.

TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED MARCH 31, 2007
GENERAL FUND
YEAR ENDED MARCH 31, 2008

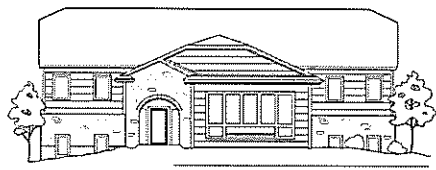
	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FROM AMENDED BUDGET	PRIOR YEAR ACTUAL
REVENUES					
State Sources:					
State Shared Revenue	\$ 250,500	\$ 250,500	\$ 412,542	\$ 162,042	\$ 409,284
Local Sources:					
Interest	10,100	10,100	81,341	71,241	122,512
Act 425 Income	6,000	6,000	13,636	7,636	15,000
Federal Grant Income	-	-	2,000,000	2,000,000	-
Less Funds Not Obligated	-	-	(2,000,000)	(2,000,000)	-
Licenses and Permits	500	500	458	(42)	432
Other Income	5,500	5,500	16,224	10,724	415,682
Total Revenues	272,600	272,600	524,201	251,601	962,910
EXPENDITURES					
GENERAL GOVERNMENT					
Township Board:					
Salaries	12,000	12,000	9,000	3,000	9,000
Payroll Taxes	7,000	7,000	6,325	675	6,307
Medical Reimbursement	10,000	10,000	6,000	4,000	6,000
Pension Plan	6,000	6,000	5,022	978	6,285
Office Supplies	4,000	4,000	2,829	1,171	2,729
Professional Services	30,000	40,000	38,122	1,878	30,793
Contract Services	30,000	30,000	15,238	14,762	22,052
Communications	2,000	3,000	2,426	574	1,981
Transportation	500	500	346	154	-
Printing and Publishing	1,500	1,500	669	831	835
Insurance and Bonds	10,000	10,000	8,913	1,087	8,744
Membership and Dues	6,000	6,000	5,011	989	4,574
Equipment	4,000	4,000	728	3,272	-
Local Match - Beaver Creek Construction Project	-	-	-	-	-
Total Township Board	123,000	134,000	100,629	33,371	99,300
Township Supervisor:					
Salary	24,000	24,000	22,854	1,146	20,152
Supplies	300	300	235	65	259
Total Township Supervisor	24,300	24,300	23,089	1,211	20,411
Election Board:					
Salaries	8,000	8,000	4,366	3,634	8,864
Postage	6,000	6,000	2,730	3,270	4,222
Contract Services	-	-	-	-	-
Equipment	4,000	4,000	-	4,000	-
Total Election Board	18,000	18,000	7,096	10,904	13,086
Township Assessor:					
Salaries	55,000	55,000	51,173	3,827	48,586

TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED MARCH 31, 2007
GENERAL FUND
YEAR ENDED MARCH 31, 2008

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FROM AMENDED BUDGET	PRIOR YEAR ACTUAL
Supplies	7,000	7,000	6,281	719	4,193
Contract Service	2,500	3,000	2,760	240	1,565
Mileage	1,000	1,000	-	1,000	249
Equipment	6,000	6,000	4,053	1,947	1,687
Total Township Assessor	71,500	72,000	64,267	7,733	56,280
Township Clerk:					
Salary	28,000	28,000	27,125	875	25,196
Supplies	3,500	3,500	3,431	69	3,224
Equipment	1,000	1,000	-	1,000	246
Total Township Clerk	32,500	32,500	30,556	1,944	28,666
Board of Review:					
Salaries	4,000	4,000	1,200	2,800	1,500
Mileage	300	300	-	300	-
Total Board of Review	4,300	4,300	1,200	3,100	1,500
Township Treasurer:					
Salaries	28,000	28,000	27,125	875	25,196
Supplies	8,000	8,000	3,787	4,213	7,074
Contract Services	2,500	2,500	250	2,250	1,164
Equipment	2,000	2,000	50	1,950	1,595
Total Township Treasurer	40,500	40,500	31,212	9,288	35,029
Township Hall:					
Supplies	300	300	-	300	-
Contract Services	3,500	3,500	3,672	(172)	3,067
Utilities	3,500	3,500	3,014	486	3,541
Repair and Maintenance	2,000	4,000	4,303	(303)	2,103
Improvements	1,000	1,000	-	1,000	-
Total Township Hall	10,300	12,300	10,989	1,311	8,711
Planning and Zoning	7,000	7,000	1,575	5,425	1,650
Total General Government	331,400	344,900	270,613	74,287	264,633
PUBLIC SAFETY					
Liquor Law Enforcement	3,800	3,800	3,186	614	2,300
Fire Protection	110,000	110,000	106,035	3,965	104,522
Street Lights	8,000	8,000	7,771	229	7,358
Total Public Safety	121,800	121,800	116,992	4,808	114,180
Public Works	200,000	186,500	-	186,500	400,000
Total Expenditures	653,200	653,200	387,605	265,595	778,813

TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED MARCH 31, 2007
GENERAL FUND
YEAR ENDED MARCH 31, 2008

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FROM AMENDED BUDGET	PRIOR YEAR ACTUAL
Excess (Deficiency) of Revenues over Expenditures	(380,600)	(380,600)	136,596	517,196	184,097
Fund Balance - Beginning of Year	982,249	982,249	1,166,346	184,097	982,249
Fund Balance - End of Year	\$ 601,649	\$ 601,649	\$ 1,302,942	\$ 701,293	\$ 1,166,346



Keskin, Cook, Miller & Alexander, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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Walter J. Keskin, CPA (Ret.)
Ronald D. Alexander, CPA (Ret.)

October 19, 2008

To the Township Board
Bagley Township
Otsego County, MI

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the Township of Bagley (the Township) as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Segregation of Duties

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the Township's staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected during normal activities.

Preparation of Financial Statements

The above definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Township has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Township has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions.

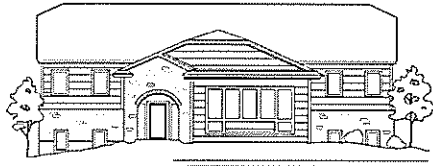
The Township has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other Governmental Units of its size.

This communication is intended solely for the information and use of management, the Township of Bagley's Board and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Keskine, Cook, Miller & Alexander LLP

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October 19, 2008

To the Township Board
Bagley Township
Otsego County, MI

We have audited the financial statements of the governmental activities and the major fund of the Township of Bagley (the Township) for the year ended March 31, 2008, and have issued our report thereon dated October 19, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 16, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on June 11, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of accumulated depreciation is based on the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop the useful life in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the Township's Measurement Focus and Basis of Accounting policy in Note 2 to the financial statements. We evaluated standard governmental accounting policies and procedures in determining the adequacy of the disclosure from a neutral, consistent and clear perspective for the end user.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2008

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Segregation of Duties

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the Township's staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected during normal activities.

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The Township has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other Governmental Units of its size.

This communication is intended solely for the information and use of management, the Township of Bagley's Board of Directors and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Keskine, Cook, Miller & Alexander LLP

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